

## Message Text

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INFO AMCONSUL BOMBAY

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E.O. 11652: N/A

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SUBJ: MINISTER OF STEEL PROPOSES NEW STRATEGY FOR STEEL DEVELOPMENT OVER NEXT 25 YEARS

REF: CALCUTTA A-27, AUGUST 9, 1974

1. THE FOLLOWING TELEGRAM WAS DRAFTED PRIMARILY BY THE CONSULATE GENERAL IN CALCUTTA.

2. PARTICIPATING IN A TV DISCUSSION IN NEW DELHI ON AUGUST 5, GOI MINISTER FOR STEEL AND MINES, K.D. MALAVIYA, CALLED FOR A NEW OFFICIAL PROGRAM FOR STEEL DEVELOPMENT IN THE NEXT 25 YEARS. HE ALSO DISCLOSED THAT THE NEW STRATEGY, BASED ON HIS "PERSONAL THINKING AND PREFERENCES", WOULD BE SUBMITTED TO THE GOI CABINET SHORTLY FOR APPROVAL.

3. MR. MALAVIYA'S "PERSONAL THINKING" IS THAT ADDITIONAL LARGE, INTEGRATED STEEL MILLS SHOULD BE DEFERRED IN FAVOR OF THE ESTABLISHMENT OF VIABLE ELECTRIC FURNACE UNITS (LOCALLY CALLED AS "MINI STEEL PLANTS"). THE LATTER WOULD NOT REQUIRE SUCH HEAVY  
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CAPITAL INVESTMENT AND LONG GESTATION PERIOD (UP TO 10 YEARS) AS

NEEDED BY LARGE MILLS. HE URGED CONSTRUCTION OF 1,000 ELECTRIC FURNACE UNITS AIMED AT PRODUCING 100 MILLION TONS OF RAW STEEL BY THE YEAR 2000.

4. IN MAKING HIS PROPOSALS, THE MINISTER RECOGNIZED THAT WORLD SHORTAGES AND RISING PRICES OF SCRAP WOULD COMPLICATE MATTERS FOR INDIA. HE ADVISED THAT THE MINI STEEL PLANTS EXPLORE THE POSSIBILITIES OF THE PROCESS OF DIRECT REDUCTION OF SPONGE IRON. AS TO THE SOURCE OF SPONGE IRON, THE MINISTER SUGGESTED THAT INDIA EXPORT IRON ORE TO BANGLADESH, IRAQ AND PERHAPS OTHER ARAB COUNTRIES WHERE NATURAL GAS WAS ABUNDANTLY AVAILABLE FOR THE CONVERSION PROCESS OF ORE INTO SPONGE IRON. THEN, UNDER BILATERAL TRADE AGREEMENTS, INDIA COULD IMPORT SPONGE IRON AGAINST HER IRON ORE EXPORTS.

5. MINISTER MALAVIYA ALSO ADVOCATED WIDER DISPERSAL OF THE STEEL INDUSTRY WITHIN INDIA IN ORDER TO OVERCOME TRANSPORT BOTTLE-NECKS AND REGIONAL LABOR UNREST. THE CONCENTRATION OF PRODUCTION IN ONE STEEL COMPLEX AREA HAS IN THE PAST "RESULTED IN OVER-EMPLOYMENT AND AVOIDABLE LABOR TROUBLES," ACCORDING TO THE MINISTER.

6. THE MINISTER'S COMMENTS DREW FIRE FROM CRITICS WHO LABELLED HIS STRATEGY "IMPRACTICAL AND UTOPIAN". LATER, WHILE APPEARING BEFORE THE PARLIAMENTARY CONSULTATIVE COMMITTEE ON AUGUST 12, MR. MALAVIYA WAS REPORTED AS SAYING THAT HE WAS VERY SERIOUS ABOUT HIS IDEAS, BUT THAT HE WAS WILLING TO EXAMINE OTHER ALTERNATIVES IF THE CRITICS HAD SOME. HE COMMENTED THAT "IT IS HIGH TIME THAT WE GIVE UP CONSERVATIVE AND CONVENTIONAL METHODS OF THINKING AND GO IN FOR FRESH IDEAS AND TECHNOLOGIES TO PRODUCE MORE STEEL". IN THIS MEETING, HE ALSO NOTED THAT HE EXPECTED IMPROVEMENT IN THEELECTRIC SUPPLY SITUATION AFTER THREE YEARS (RPT THREE YEARS).

7. COMMENT: MR. MALAVIYA'S "NEW" STRATEGY IS NOT REALLY NEW. THE GOI HAD FROM 1970 UNTIL OCTOBER 1973 LIBERALLY PERMITTED THE ESTABLISHMENT OF SMALL ELECTRIC FURNACE UNITS AND IN ECAFE AND OTHER SIMILAR FORUMS ACTIVELY STRESSED THE IMPORTANCE OF THE MINI-STEEL CONCEPT TO DEVELOPING COUNTRIES (NEW DELHI A-332, SEPT.12, 1973). THEN, SCRAP SHORTAGES BROUGHT OFFICIAL RESTRICTIONS, AND UNCLASSIFIED

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LICENSING REQUIREMENTS FOR NEW UNITS WERE RESTORED. WHAT APPEARS NEW, HOWEVER, IS THE CHANGE IN APPROACH OF MR. MALAVIYA, WHO WAS A STAUNCH ADVOCATE OF PUBLIC SECTOR GIANT STEEL MILLS ON THE SOVIET MODEL. HE NOW TALKS OF A DECENTRALIZATION OF THE STEEL INDUSTRY AND MAY BE FAVORING NUMEROUS SMALL-SIZE STEEL MILLS IN ORDER TO ENLIST THE PARTICIPATION AND INVESTMENT OF PRIVATE ENTREPRENEURS. PUBLIC FUNDS SEEM TO BE INADEQUATE TO FINANCE THE STEEL EXPANSION

PROGRAM WHICH THE GOVERNMENT WOULD LIKE.

8. BUSINESSMEN AND OTHER KNOWLEDGEABLE SOURCES ARE SKEPTICAL OF THE MINISTER'S ANNOUNCEMENT. THEY ARE CONCERNED AT THE OBVIOUS SHORTAGES OF ELECTRIC POWER AND SCRAP OR SPONGE IRON, ALL OF WHICH ARE LIKELY TO CONTINUE FOR PERIODS OF YEARS. THEY ALSO POINT OUT THAT MOST OF THE EXISTING ELECTRIC FURNACE UNITS (OF WHICH OFFICIALLY THERE ARE CURRENTLY 128 LICENSED) HAVE IN THE PAST SHOWED A POOR RATE OF CAPACITY UTILIZATION RANGING FROM 40-50 PERCENT (TOTAL INSTALLED CAPACITY OF THE 128 UNITS IS 3.4 MILLION TONS). THE MINISTER'S REMARKS HAVE PROVOKED WIDESPREAD INTEREST, BUT WE HAVE TO JOIN OTHER SKEPTICS IN WONDERING JUST HOW SUCCESSFUL HE WILL BE IN PERSUADING OTHERS OF THE MERITS OF PURSUING HIS PROGRAM. MOYNIHAN

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